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Economic and social developments in the Economic and Social Commission for Western Asia region for the period 2017–2018

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith an overview report on economic and social developments in the Economic and Social Commission for Western Asia region for the period 2017–2018.

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Economic and social developments in the Economic and Social Commission for Western Asia region for the period 2017–2018

[Original: Arabic and English]

Summary

Growth in the Arab region slowed slightly to an estimated 2.3 per cent in 2017 from 2.6 per cent in 2016. This drop was largely driven by subdued growth performance among oil exporters, especially Gulf Cooperation Council (GCC) countries whose growth bottomed out at an estimated 0.9 per cent in 2017. The weak economic activities of the region's oil exporters were largely attributed to hydrocarbon sector-led growth decelerations, in line with a 2017 OPEC agreement to cut oil production. This reduction measure caused a decrease in the Arab region's production by 5.2 per cent compared with 2016, which offset the effect of a favourable oil price movement in 2017.

In contrast, the economies of oil importing countries have expanded given the stronger-than-expected recovery of the global economy, coupled with a gradual strengthening of their domestic demand. Nonetheless, serious geopolitical tensions have remained, exacerbated by numerous ongoing intra-regional diplomatic rifts and their spillover effects. However, despite mixed performances in the external environment and the challenges facing the Arab region, a gradual improvement in the region's economic outlook is anticipated: GDP growth is forecast at 2.9 per cent for 2018 and at 3.1 per cent for 2019. Such projections reflect a series of policy reforms, fiscal adjustments and improvements in the tourism sector, along with an expected reduction in geopolitical tensions in the future.

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I. Global context

1. In 2017, the world economy strengthened, with global GDP growth reaching 3 per cent compared with 2.4 per cent in 2016. As a result of improved investment conditions, world trade rebounded and employment stabilized in the world's major economies. This global growth was primarily driven by developed countries, whose growth contribution accounted for nearly 30 per cent of the world's total growth. Economic recovery in some developing countries was another significant factor contributing to global growth. Such upward dynamics were, however, unequally distributed across countries and regions, which raises questions of sustainability in the long run. In addition to uneven growth trajectories, future prospects are clouded by several uncertainties arising from increasing protectionism, financial sector vulnerability caused by high debt levels, and weak wage growth.

2. Developed countries began driving the global economic upturn in 2017, gaining momentum to push away from long-standing subdued economic activities since the 2008 financial crisis. Their economic growth reached 2.2 per cent in 2017, a significant increase from 1.6 per cent in 2016. A strong investment initiative was identified as the most significant factor, broadly encouraging the resumption of global economic activities. Furthermore, inflation was benign and the unemployment rate dropped significantly across all developed countries, further supporting this economic uptick. The United States of America, in particular, registered steady growth in 2017, underpinned by improved business investment and favourable external trade. The European Union also registered economic recovery, mainly driven by increased household spending and active investment. In addition, the Japanese economy enjoyed growth in domestic demand, coupled with improved labour market conditions.

3. As the expectation of inflation increased with economic recovery, many major developed countries changed their policy stance to one of monetary tightening. The United States Federal Reserve raised interest rates by 25 percentage points on three occasions in 2017, thus doubling interest rates from 0.75 to 1.5 points.[1] Moreover, instead of intervening in policy rates, the European Central Bank decided to reduce the speed of asset purchases, starting from January 2018.[2] The central banks of the United Kingdom and Canada responded to global dynamics by raising policy rates by 25 and 50 percentage points, respectively. Nevertheless, tight monetary policy in those major economies might result in sudden capital flight unless their speedy tightening trend is stabilized.

4. In 2017, developing countries also acted as a driving force for global economic growth: output growth in developing countries stood at 4.3 per cent, up by a 0.5 percentage point from 2016. However, although favourable investment conditions and stable commodity prices have contributed to overall growth, development outcomes have not been spread evenly across countries and regions. On the one hand, the growth of East and South Asia constituted around half of global growth and is expected to expand at a rapid pace. For example, the Chinese economy grew by 6.8 per cent as a result of robust domestic consumption and increased infrastructure investment.[3] In addition, commodity-exporting countries such as Brazil and the Russian Federation registered an increasing growth rate, up by 4.3 and 2 percentage points, respectively. The upward trend in the commodity prices of export material was

[1] https://www.federalreserve.gov/monetarypolicy/openmarket.htm.

[2] http://www.ecb.europa.eu/press/pr/date/2017/html/ecb.mp171026.en.html.

[3] The One Belt One Road Initiative, launched by the Chinese Government in 2013, aims to build and link mainland and maritime roads across three continents (Europe, Asia and Africa) and over 60 countries.

a major step towards such significant growth. Nonetheless, most developing countries have not yet succeeded in diversifying their economic and export structure, thus rendering them vulnerable to the rapid boom and bust cycles of the global commodities market.

5. Although global unemployment slightly increased to 5.6 per cent in 2017 from 5.5 per cent in 2016, the unemployment situation varied across countries and regions in 2017.[4] As a result of an uptick in economic activities, the labour market continued to improve in developed countries, where unemployment fell by a 0.5 percentage point to 5.7 per cent. The unemployment rate in the United States decreased by a 0.5 percentage point to 4.4 per cent in 2017. Similarly, unemployment in Europe fell by a 0.4 percentage point to 5.6 per cent. Moreover, the unemployment rate in Japan dropped to an unprecedented low level of 2.8 per cent, down by a 0.3 percentage point. In contrast, many developing countries experienced some unfavourable changes, largely attributed to labour force growth outweighing employment capacity. Sub-Saharan Africa and Latin America and the Caribbean have suffered the most from persistent unemployment challenges, largely caused by a demographic transition in the labour market.

Table 1
Growth and inflation: world and regional averages, 2015–2019

(Percentage)

	Real GDP growth rate					*Consumer price inflation rate*				
Country subregion	*2015*	*2016*	*2017[a]*	*2018[b]*	*2019[b]*	*2015*	*2016*	*2017[a]*	*2018[b]*	*2019[b]*
Arab region	2.7	2.6	2.3	2.9	3.1	4.9	6.3	7.0	4.4	4.2
World	2.7	2.4	3.0	3.0	3.0	2.1	2.4	2.6	2.8	2.8
Developed countries	2.2	1.6	2.2	2.0	1.9	0.2	0.7	1.5	1.9	2.1
United States	2.9	1.5	2.2	2.1	2.1	0.1	1.3	1.7	2.1	2.1
European Union	2.2	1.9	2.2	2.1	1.9	0.0	0.3	1.6	1.8	2.1
Japan	1.1	1.0	1.7	1.2	1.0	0.8	-0.1	0.3	1.4	1.8
Economies in transition	-2.2	0.4	2.2	2.3	2.4	15.8	7.8	5.3	5.1	4.6
Developing countries	3.9	3.8	4.3	4.6	4.7	4.4	5.2	4.4	4.3	4.2
Africa	3.1	1.7	3.0	3.5	3.7	7.0	11.3	13.0	9.5	8.1
East/South Asia	5.8	6.0	5.9	5.8	5.9	2.6	2.6	2.4	3.1	3.4
Latin America	-0.6	-1.3	1.0	2.0	2.5	7.7	9.3	5.8	4.9	4.7

Sources: Data for the Arab region are calculated by ESCWA based on national statistical sources. Other data and country groupings are from the United Nations Department of Economic and Social Affairs (DESA), *World Economic Situation and Prospects 2018*, January 2018.

[a] DESA estimations as at December 2017 (with the exception of the Arab region, which is an ESCWA estimation).

[b] DESA projections, based in part on Project LINK as at December 2017 (with the exception of the Arab region, which is an ESCWA estimation).

[4] http://www.ilo.org/global/research/global-reports/weso/2018/lang--en/index.htm.

II. Natural resource commodities

A. Oil

6. As employment dynamics in most major economies make positive progress in terms of unemployment volume towards pre-crisis levels, global unemployment is expected to drop back to 5.5 per cent in 2018. Notwithstanding this positive labour market outlook, several challenges remain. World wage growth has weakened, mainly affected by the growing share of vulnerable employment.[5] For instance, workers in vulnerable forms of employment,[6] accounting for 42 per cent of global employment, have limited access to social protection and experience low job security. Young people and women continue to face high unemployment rates. The youth unemployment rate increased by a 0.3 percentage point to 13 per cent in 2017, constituting one-third of the world's total unemployment.

7. In 2017, world demand for oil stood at 97 million barrels per day, an increase of 1.7 per cent from 2016.[7] OPEC forecasts that total oil demand will rise to 98.6 million barrels per day in 2018. Improved demand stems from increased consumption, supported by economic recovery in most developed countries. Furthermore, the drop in crude oil inventories has contributed to an increase in demand. The demand for oil in the United States rose by 1.2 per cent to 20.2 million barrels per day in 2017, while demand in Europe increased by 1.4 per cent to 14.2 million barrels per day. A strong demand for oil was also observed in some major developing countries. China doubled its efforts in petrochemical and transportation sector development, which caused a significant increase in demand. Moreover, Indian demand for oil rose by 1.8 per cent in 2017, a substantial increase from 4.4 million barrels per day in the previous year.

8. The 2017 OPEC agreement to reduce crude oil production extends until the end of 2018.[8] This agreement rebalanced the global oil market, thus increasing oil prices. The reduction was led by Saudi Arabia, which registered the largest oil output cut of nearly 509 thousand barrels per day. Notwithstanding efforts to cut production by the majority of OPEC members, their rebalancing outcomes have been limited because of production dynamics in some exempt countries, including Libya which radically increased its oil production in 2017. The oil production activities of non-OPEC countries were also a considerable factor limiting the agreement's rebalancing effect: non-OPEC supply in 2017 increased by 0.86 million barrels per day to 57.86 million barrels per day. Meanwhile, crude oil production in the United States reached its highest level, despite hurricane-related refinery disruptions during the fourth quarter of 2017.

9. The price of oil rose by $21.64 per barrel from $45.21 in mid-June 2017 to $66.85 per barrel in late-January 2018. This price is the highest since 2016 and can be attributed to a recovery of approximately 52 per cent of the value lost ($86.9) over the period from June 2014 ($109.38) to January 2016 ($22.48). This solid recovery was largely the result of increased transactions in the oil futures market, spurred by strong demand and a shortage of global inventories caused by high demand in China and India; recovering demand dynamics in Europe; stable refining margins; moderate growth in tanker rates; and agreements to reduce crude oil production. Despite such

[5] www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017.

[6] Own-account workers and contributing family workers, based on classifications by the International Labour Organization.

[7] http://www.opec.org/opec_web/en/publications/338.htm.

[8] In May 2017, OPEC and non-OPEC oil producing countries extended their reduction agreement until the first quarter of 2018, followed by a further extension agreement in November 2017 lasting until the end of 2018.

a favourable rebalancing trajectory over the past two years, the recent global supply-demand nexus is expected to remain largely unchanged, although an extension of the production cuts is highly feasible. ESCWA therefore forecasts that the recent upswing trend will soften to around $57.83 per barrel on average in 2018 and $57.97 per barrel in 2019, up nearly $5-6 compared with the average 2017 price.

Table 2
Crude oil price estimation and forecast

(OPEC reference basket, $ per barrel)

				Forecast annual average		
	Minimum	*Maximum*	*Annual average*	*Lower*	*Baseline*	*Higher*
2015	30.74	64.96	49.49			
2016	22.48	53.46	40.76			
2017	42.58	64.47	52.43			
2018				53.20	57.83	62.35
2019				46.10	57.97	68.50

Source: OPEC data for 2015–2017. Available from www.opec.org.
Note: Data for 2018 and 2019 are ESCWA estimates as of March 2018.

10. The Arab region's crude oil production for 2017 is estimated at 24.7 million barrels per day, on average — a drop of 2 per cent from the previous year. At the subregional level,[9] GCC and Mashreq countries produced an estimated 17.3 million and 5.1 million barrels per day, respectively, equivalent to a fall of 5.2 per cent and 3.6 per cent compared with 2016. Meanwhile, Maghreb countries and Arab least developed countries (LDCs), although minimal contributors to the region's production, produce and estimated 2.1 million barrels per day and 144 thousand barrels per day, respectively, up by 34.2 per cent and 9.2 per cent over the same period. All five oil giants in the Arab region (Algeria, Iraq, Kuwait, Saudi Arabia and the United Arab Emirates) have been significantly affected by the OPEC agreement, which has resulted in a reduction in oil production of between 0.2 per cent and 10.6 per cent from the preceding year. In contrast, Libya, which was exempt from the initial production-cut deal, was able to substantially increase crude oil production by nearly 1 million barrels per day in 2017.

11. Total production in the Arab region is, however, forecast to increase moderately in 2018 to 25.5 million barrels per day as a result of rebalancing in the oil market. Reflecting a modest rise in oil prices over the period 2016–2017 by 29 per cent, or $11–12 per barrel, the region's total gross oil export revenues are estimated at $404 billion for 2017, a 22 per cent increase from 2016. Since the price of oil is projected to remain at around the current level, total oil revenues are forecast to continue this upswing trend with a 13.7 per cent increase to $460 billion in 2018. Nevertheless, this figure is still 46.7 per cent lower than the peak in 2012.

[9] ESCWA divides the Arab countries into four subregions: GCC countries (Bahrain Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the Mashreq (Egypt, Iraq, Jordan, Lebanon, the State of Palestine and the Syrian Arab Republic); the Maghreb (Algeria, Libya, Morocco and Tunisia); and least developed countries (the Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen).

B. Natural gas

12. Global demand for natural gas is estimated to increase by 29 million tonnes to 293 million tonnes in 2017.[10] This increase is underpinned by continual gas exporting activities to East Asia and Southern Europe. Japan remained the largest importer of natural gas, accounting for nearly one-third of the world's total imports. Partly because of its national environmental development programmes, China became the second largest gas importer in 2017.[11] In addition, Southern Europe imported an additional 10 million tonnes of liquefied natural gas (LNG), owing to increased demand in line with the stronger-than-expected recovery of its economy. Such strong demand dynamics were supported by the rapid growth of LNG production in Australia and the United States. Given the strong supply-demand nexus in 2017, market competition among gas suppliers has intensified as diversification strategies from major gas importers are designed and implemented.

13. At the regional level, many Arab countries occupy key positions in the global natural gas market by holding 46 per cent of the world's natural gas reserves.[12] In 2017, the Arab region maintained its significant production role, coupled with rapidly growing demand in the region. Qatar remained the world's largest LNG exporter in 2017 despite the diplomatic crisis with some neighbouring countries. Moreover, gas exporting from countries such as Algeria, Oman and the United Arab Emirates maintained a competitive level. On the other hand, Egypt suffered from gas shortages because of increased domestic energy demand. Nonetheless, Egypt is expected to reach natural gas self-sufficiency status in the years to come following the start of production in newly discovered gas fields.[13]

III. Regional trends

A. Overview

14. Growth in the Arab region is estimated to have slowed slightly to 2.3 per cent in 2017 from 2.6 per cent the year before, driven by a decline in growth among oil exporters, particularly GCC countries. Subdued economic activities in both GCC and non-GCC oil exporters was largely attributed to hydrocarbon sector-led growth decelerations in line with the OPEC agreement on oil production cuts, which offset the effect of the favourable oil price movement in 2017. In contrast, the economies of oil importing countries expanded following the stronger-than-expected recovery of the global economy, especially in European countries, coupled with the gradual strengthening of their domestic demand. Nonetheless, geopolitical factors and elevated levels of public debt continue to weigh heavy on the Arab region, in general, and on oil importing countries, in particular.

[10] https://www.shell.com/energy-and-innovation/natural-gas/liquefied-natural-gas-lng/lng-outlook.html.

[11] China has implemented its thirteenth Five-Year Plan and Energy Production and Consumption Revolution Strategy 2016-2030, geared towards increasing the share of natural gas in its energy mix from 5.9 per cent in 2015 to 10 per cent by 2020, and to 15 per cent by 2030.

[12] https://www.worldenergy.org/data/resources/resource/gas/.

[13] http://www.petroleum.gov.eg/en/MediaCenter/LocalNews/Pages/mop_16122017_1.aspx.

Table 3
Real GDP growth rate and consumer price inflation rate in the Arab region, 2015–2019

(Percentage)

	Real GDP growth rate					*Consumer price inflation rate*				
Country, subregion	*2015[a]*	*2016[a]*	*2017[b]*	*2018[c]*	*2019[c]*	*2015[a]*	*2016[a]*	*2017[b]*	*2018[c]*	*2019[c]*
Bahrain	2.9	3.0	3.5	2.0	3.3	1.9	2.7	1.4	2.5	3.0
Kuwait	0.6	3.5	1.0	2.1	2.3	3.7	3.5	3.4	3.8	3.4
Oman	4.7	5.4	1.7	3.3	3.0	0.1	1.1	1.7	2.9	2.6
Qatar	3.6	2.2	0.8	2.6	2.2	1.8	2.7	0.8	2.6	3.2
Saudi Arabia	4.1	1.7	-0.7	2.2	2.3	2.2	3.5	-0.3	1.0	1.4
United Arab Emirates	3.8	3.0	3.3	2.3	3.0	4.1	1.6	2.0	2.5	3.5
GCC countries	3.7	2.5	0.9	2.3	2.5	2.6	2.8	0.9	1.9	2.4
Egypt[d]	4.4	4.3	4.2	3.8	4.2	10.4	16.1	30.3	12.2	10.8
Iraq	4.0	6.3	1.8	3.7	3.1	1.4	0.5	0.1	3.0	3.4
Jordan	2.4	2.0	2.0	2.8	2.9	-0.9	-0.8	3.3	2.6	2.3
Lebanon	0.8	1.4	2.0	2.5	2.5	-3.7	-0.8	3.8	2.2	2.3
Palestine	3.4	4.7	3.6	3.8	3.9	1.4	-0.2	0.2	2.0	2.0
Syrian Arab Republic[e]	-8.1	-6.5	-3.9	-2.3	0.4	42.5	46.1	38.4	13.9	10.6
Mashreq	3.2	4.0	2.8	3.3	3.5	7.5	10.7	17.5	8.3	7.5
Algeria	3.7	3.3	2.1	3.2	3.1	4.8	6.4	5.6	3.8	3.2
Libya	-22.0	-5.2	45.9	16.2	12.3	9.8	24.0	27.8	14.0	10.0
Morocco	4.5	1.2	4.2	4.1	4.0	1.6	1.6	0.7	2.8	2.7
Tunisia	1.1	1.2	1.9	3.2	3.3	4.9	3.7	5.3	3.6	3.5
Maghreb	0.7	1.5	7.6	4.9	4.4	4.5	6.7	6.7	4.6	3.9
Comoros	1.0	2.2	2.8	3.0	3.7	1.3	1.8	2.2	0.4	0.8
Djibouti	6.5	6.5	6.8	6.8	6.7	2.7	2.4	3.5	4.0	2.7
Mauritania	0.9	1.7	3.8	5.2	5.2	0.5	1.5	2.7	4.3	5.3
Somalia[f]	2.6	2.6	2.5	3.3	3.9	-2.9	2.0	2.2	0.8	1.3
Sudan	4.3	4.9	4.2	4.1	4.2	17.3	17.6	25.2	10.0	9.5
Yemen	-29.2	-11.1	-7.5	-4.3	0.2	21.4	35.0	22.5	18.0	9.3
Arab LDCs	-5.4	0.1	0.8	1.7	3.1	16.6	21.0	22.2	11.5	8.8
Total Arab region[e]	**2.7**	**2.6**	**2.3**	**2.9**	**3.1**	**4.9**	**6.3**	**7.0**	**4.4**	**4.2**

Source: ESCWA estimates based on national statistical sources.

[a] GDP figures for 2015 and 2016 are from national sources unless otherwise indicated.

[b] March 2018 estimates.

[c] March 2018 forecasts.

[d] Data are for Egypt's fiscal year, which ends in June.

[e] 2015–2017 GDP growth rates in Libya, the Syrian Arab Republic and Yemen are ESCWA estimates.

[f] The GDP growth rate and consumer price inflation rate for Somalia are from www.imf.org/en/Publications/CR/Issues/2017/02/27/Somalia-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44706.

15. A gradual improvement in the regional economic outlook is anticipated: the GDP growth forecast is estimated at 2.9 per cent for 2018 and 3.1 per cent for 2019. Such projections reflect a series of policy reforms, fiscal adjustments and improvements in the tourism sector, along with an expected reduction in geopolitical tensions in the future. It should be noted, however, that these figures are subject to future revision, as official national accounts have been unavailable for Libya, the Syrian Arab Republic and Yemen for some years given that estimating the economic cost of conflict in those countries is difficult.

B. Gulf Cooperation Council countries

16. Overall real GDP growth in GCC countries bottomed out at an estimated 0.9 per cent in 2017 as the OPEC agreement reduced oil output, reflected in a drop in production of 5.2 per cent over the period 2016–2017. This significant reduction in volume would have caused a more severe contraction of the economy without resilient domestic demand, supported by the stabilizing value of financial and real estate assets and a modest recovery of the non-oil sector. Furthermore, external balances slightly improved because of stronger external demand, which eventually caused the recovery of oil export revenues from the lows of 2016.

17. Growth is projected to reach 2.3 per cent in 2018, largely because of a favourable base effect from real growth in 2017. This recovery is expected to be accompanied by mild inflationary pressure, reinforced by the introduction of a unified value-added tax that is likely to fuel consumer inflation in most GCC countries. Major contributions to the recovery include reforms to promote non-oil sector activity such as services and manufacturing for competitive business environments to cushion the dampening effect of the OPEC-led production cuts; significant deficit reduction efforts, supported by continued improvements in fiscal frameworks and institutions (for example, most GCC countries now have an operationalized macro-fiscal department and debt management office in their ministries); and an international capital and equity market generally favourable to most GCC countries. Relaxation of the OPEC reduction measure is anticipated in 2019, which will then likely increase the growth rate to 2.5 per cent, combined with a number of large infrastructure projects such as World Expo 2020.

C. Mashreq countries

18. Growth in Mashreq countries averaged an estimated 2.8 per cent in 2017, down from 4 per cent in 2016. At the country level, progress was uneven across this subregion. In Egypt, industrial production and investment were strong, largely benefitting from the effects of its exchange rate devaluation; however, this positive performance was substantially restrained by a series of fiscal adjustments coupled with a high inflation rate. Economic expansion in Iraq remained subdued because of the OPEC reduction agreement and the fiscal consolidation efforts to cut public investment. The economy of the Syrian Arab Republic improved slightly as the intensity of the conflict eased in 2017, although continued negative growth is expected. Some reconstruction has begun, and private consumption driven by returning Syrian expatriates has also contributed to the recovery of the economy. Jordan and Lebanon have experienced mixed pressures. For instance, while geopolitical tensions continue to negatively impact both economies, stronger mining activities and a pickup in tourism derived moderate growth in Jordan, and territorial consolidation and reconstruction efforts in Syrian Arab Republic boosted economic activities in Lebanon. Nonetheless, stagnant intra-regional trade and low workers' remittances and investments were less favourable aspects in both economies.

19. Average growth for the subregion in 2018 is projected to reach 3.3 per cent. The economy of the Syrian Arab Republic will contract at a softer pace, and the outlook for Iraq will continue to be dominated by geopolitical conflict and oil-producing activities. The economy of the State of Palestine is forecast to slightly expand as various value-added activities, such as construction, agriculture and manufacturing, are anticipated in the Gaza Strip. However, potential disruptions from renewed political tensions related to the recognition by the United States of Jerusalem as the capital of Israel might cloud such positive prospects. Egypt, Jordan and Lebanon are forecasted post-moderate economic outcomes, associated with improvements in balance-of-payment situations, cross-border remittances, capital inflows, and tourist arrivals from European countries towards the end of 2018.

D. Maghreb countries

20. Economic growth in Maghreb countries averaged 7.6 per cent in 2017, a substantial increase from the 1.5 per cent recorded in 2016. The subregion's growth is heavily influenced by Libya, whose growth rate increased by an estimated 51 percentage points from minus 5.2 per cent to 45.9 per cent over the period 2016–2017. The expansion of the Libyan economy was driven by a substantial increase in its oil output, roughly triple its production from the previous year. Such a significant increase was the result of the country's exemption from the initial OPEC production-cut deal. In Morocco, a strong rebound in agricultural production (40 per cent of the population relies on agriculture) from severe droughts in the previous year was observed, in addition to accelerated activities in the services, manufacturing and mining sectors. Similarly, Tunisia experienced gradual recoveries in its agricultural and manufacturing sectors, further supported by improved trade activities and a pickup in tourist arrivals (associated with stronger growth in Europe). In contrast, growth in Algeria slowed in 2017 as a consequence of spending cuts, particularly in public investment, and subdued hydrocarbon sector and non-oil activities.

21. A growth rate of 4.9 per cent is expected for the subregion in 2018. This estimated figure largely depends on the performance of the Libyan economy, which is forecast to maintain a positive growth rate of 16.2 per cent following a ramp-up in oil production. The other three Maghreb countries are also projected to improve or maintain their growth momentum in 2018. In Algeria, a more expansionary fiscal stance than in 2017 will act as a driver of growth, albeit only in the short term. In Morocco, external environments such as capital inflows, further recovery in the tourism sector and the favourable price of phosphates, are expected in the future. Similar expectations apply to Tunisia in terms of external performance. Morocco and Tunisia will benefit from the Group of 20 Compact with Africa initiative launched in March 2017, aimed at boosting private investment and improving infrastructure.

E. Arab least developed countries

22. The Arab LDCs experienced an average economic expansion of 0.8 per cent in 2017. This figure is largely the result of continued economic contraction in Yemen, associated with the loss of revenues from oil and natural gas exports and exacerbated by persistent hyperinflation, in the light of ongoing armed violence and humanitarian crises. Djibouti and Mauritania managed their current account deficit, reflecting slightly higher oil prices and the continued import of capital goods. The growth of those two economies was pushed by port infrastructure projects in Djibouti, and large mining and infrastructure investments in Mauritania. The economy of Somalia continued its slow recovery: the severe drought over the period 2016–2017 devastated its pastoral livestock industry, in which around 60 per cent of the country's working

population are employed. Growth remained stable in the Comoros mainly owing to increased remittances and infrastructure investment that support private sector activities. In contrast, the Sudan suffered from prolonged hyperinflationary pressures, combined with the continued devaluation of its currency, which could have a negative knock-on effect on consumption and investment in the private sector.

23. In 2018, the real GDP of the Arab LDCs is expected to average 1.7 per cent. With no improvement in the security situation in sight and agriculture badly hit by fighting, Yemen is unlikely to resume oil and gas exports and the economy will continue to contract. Supported by positive spillovers (tourist arrivals and remittances) from stronger global economies, growth prospects in Djibouti and Mauritania appear strong. Furthermore, as commodity prices are expected to increase slightly, Mauritania (iron ore and gold) and the Sudan (gold) will benefit, based on improved terms of trade. Somalia will experience relatively high growth during an upcoming phase of infrastructure reconstruction projects. Economic growth in the Sudan will be steady as stronger private investment and trade are anticipated, reflecting the lifting of economic sanctions by the United States in October 2017. These positive prospects are partly the result of a number of global-level trade facilitation initiatives for LDCs, including the 2013 Bali Package and the duty-free and quota-free market access initiative under the World Trade Organization. Nonetheless, debt vulnerabilities, such as the build-up of arrears in Somalia and the Sudan, and large infrastructure projects funded by external borrowing in Djibouti and Mauritania, raise questions about their sustainability.

F. Prices and inflation

24. The average annual consumer price inflation for 2017 in the Arab region is estimated at 7 per cent, up from 6.3 per cent in 2016. However, this figure might not properly reflect regional price dynamics as inflation trends varied between subregions, depending on country-specific factors. Inflationary pressures in GCC countries generally appeared weak, except in Saudi Arabia which recorded deflation for the first time in over a decade largely driven by food and transport components of inflation. Inflation in conflict-affected countries, including Libya, the Syrian Arab Republic and Yemen, continued above 20 per cent (hyperinflation), but the Syrian Arab Republic experienced a drop in its inflation rate from 46.1 per cent in 2016 to 38.4 per cent in 2017 largely due to the stabilizing value of the Syrian pound. More diversified dynamics can be observed in Mashreq countries. Inflation rates in Jordan and Lebanon rose sharply in 2017 after deflation in 2016, while conflict-related inflationary pressures in Iraq were well contained. A spike in inflation was observed in Egypt, increasing from 16.1 per cent to 30.3 per cent over the period 2016–2017. This strong inflationary pressure reflects the effects of pass-through of the exchange rate and import prices to domestic inflation, coupled with price increases caused by fuel subsidy cuts and a value-added tax.

25. These inflationary pressures in the region are expected to ease towards the end of 2018. Such an outlook will be largely driven by the assumption that a number of single-occasion inflationary factors (such as a one-time effect from an energy subsidy cut) will fade over time. Nonetheless, there will be several upward inflationary pressures for the region. In particular, the recent implementation of a unified GCC-wide value-added tax is expected to produce mild inflationary pressure, which will have knock-on effects on household spending power. Against a backdrop of heterogeneous factors affecting the price structure across countries, it is forecast that the consumer price inflation rate for the region will average 4.4 per cent in 2018 and will remain around the same level the following year.

G. Exchange rates

26. The exchange-rate regimes of currencies pegged to the United States dollar (or special drawing rights in Libya, or Euro in the Comoros) continued to dominate in the Arab region, especially in GCC countries whose hydrocarbon economies are priced in United States dollars. Adopting more flexible forms of exchange-rate regimes (or independent floating) is another practice, implemented in Jordan, Morocco, and Tunisia. In 2017, regardless of the exchange-rate regime, ongoing fiscal challenges pushed several Arab countries to initiate reforms (or consider changes) to their regimes to face pressures on their economies, control inflation and reduce a severe balance of payment. For example, a free-floating of the Egyptian pound was implemented in November 2016, and a flexible exchange-rate system was introduced in Morocco in January 2018.

27. In Egypt, reform enabled the banking system to manage the dollar liquidity, which led to the exchange rate in the fourth quarter of 2017 to come close to its fair value after the initial substantial fall of the Egyptian pound. Furthermore, the Egyptian pound is forecast to strengthen in 2018, reflecting an increase in natural gas output once the Zohr gasfield comes on stream. The currencies of Algeria and Mauritania resumed moderate depreciation in 2017 and are expected to further decrease in the years to come, reflecting a severe current-account deficit that will exert downward pressure on both currencies. Similarly, Tunisia is expected to experience currency depreciation because of an agreement made with the International Monetary Fund on the limited role of the country's central bank in defending the currency. In February 2018, the Central Bank of Sudan devalued the pegged exchange rate of the Sudanese pound, which is expected to devalue further in the near future; the Sudan will be forced to let the currency float towards the end of 2018. Discrepancies between the official exchange rate and the parallel market rate were partly managed in some countries. For instance, the Syrian pound began to strengthen in 2017 on the back of higher inflows of remittances, which facilitated progress in narrowing such differentials. In Yemen, the central bank decided to float the currency in August 2017, which resulted in a sharp depreciation. Political instability in Iraq added to the persistent gap between the market and the official exchange rates.

H. Social dynamics and employment

28. Labour market dynamics in the Arab region remain challenging. The female labour force participation rate in 2017 was estimated at 21 per cent compared with a world average of 48.6 per cent, and with the region's male participation rate of 74 per cent.[14] Unemployment in the region, especially among young people, poses an obstacle for inclusive growth. The region has the highest youth unemployment rate: 30.6 per cent in 2016, according to the International Labour Organization, compared with a global average of 13.1 per cent. The region's challenges concerning fiscal consolidation, lower oil production and regional conflicts affecting growth performance complicate the resolution of unemployment challenges and overall socioeconomic hardships. The ongoing Syrian crisis continues to impact neighbouring countries, such as Jordan and Lebanon, by increasing labour supply, raising market demand, and affecting the quality of and access to public services.

29. Most GCC countries have recently strengthened their labour nationalisation policies to recover the deficit caused by recent tight monetary policy and a slowdown

[14] https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS.

in growth owing to a slump in oil prices that started in 2014.[15] This step is expected to have a positive impact on unemployment for nationals, while also discouraging the region's immigrant job seekers, particularly those from Mashreq and Maghreb countries. For example, in Saudi Arabia, the expansion of a Saudisation policy in the private sector aims to increase employment rates for Saudi nationals, especially women. In the last quarter of 2017, the ratio of Saudi employed non-nationals reached around 78 per cent compared with 22 per cent for nationals.[16] The Saudisation plan also takes into consideration factors such as salary averages, the percentage of female employees and employment time. In addition, the policy imposes increased taxes on companies employing foreign workers and taxes on family members of foreign workers.

30. According to the Global Gender Gap Report 2017, the Arab region continues to rank last globally despite closing its gender gap by over 60 per cent. Tunisia was the top performer, ranking 117 out of 142 countries, followed by the United Arab Emirate at 120. Significant progress has been made in the sub-indexes of 'political empowerment' and 'educational attainment'.[17] Towards the end of 2017, the Arab region had a women's representation rate of 18.3 per cent in the lower or single house and 12.6 per cent in the upper house or senate, with Algeria taking the lead with 25.8 per cent of women parliamentarians owing to its quota system.[18]

IV. Policy developments

31. In general, there was limited policy space for Arab Governments to manoeuvre when faced with challenges in their external environment and the 2014 drop in oil prices. Almost all Arab countries continued to engage in a series of fiscal consolidation plans in 2017. These included various cuts in costly energy subsidies and several other elements of capital spending. Although several countries have managed their fiscal challenges well by reducing their deficits, they will continue their reform efforts in the coming years to strengthen their revenue base and reduce outstanding public debt. A unified value-added tax of 5 per cent has been introduced in GCC countries effective January 2018; all GCC countries are expected to fully implement it by the end of 2018. Regardless of the differences between oil exporter and oil importer countries, such fiscal consolidation efforts will continue, supported by a strengthening of institutional aspects to improve the transparency, accountability and sustainability of fiscal frameworks.

32. Under the currency exchange policies pegged to the United States dollar in the majority of Arab economies, central banks have increased their policy rates in tandem with the ongoing cycle of United States interest rate hikes by a 0.25 percentage point in March, June and December 2017. The Saudi Arabian Monetary Authority has maintained its policy lending rate at 2 per cent, while increasing its policy deposit rate three times by a 0.25 percentage point since 2017. The Central Bank of Jordan revised its policy interest rates four times: in February, March, June and December 2017. Unsurprisingly, other countries, including Kuwait, Oman, Tunisia and the United Arab Emirates, responded to United States rate hikes by increasing their policy rates several times throughout 2017.

33. Such United States normalization of monetary policy associated with fast United States dollar appreciation has raised the cost of international financing for the region, with many Arab countries using debt issuance for deficit financing purposes.

[15] http://www.ilo.org/beirut/media-centre/news/WCMS_514537/lang--en/index.htm.

[16] https://www.stats.gov.sa/en/352.

[17] http://www3.weforum.org/docs/WEF_GGGR_2017.pdf.

[18] http://www.ipu.org/wmn-e/classif.htm.

Moreover, some countries, particularly GCC countries, have made efforts to lessen their liquidity pressures and enhance their ability to supply credit to the private sector. This tightening monetary stance is expected to continue, although some countries (such as Egypt, Jordan, Morocco and Tunisia) are considering adopting more flexible forms of exchange-rate regimes, and restructuring the domestic capital market to be a priority policy focus.

V. Prospects

34. The Arab region will continue to manage uncertainties, to varying degrees between subregions, towards an inclusive and sustainable growth trajectory. Geopolitical tensions will remain, exacerbated by a number of ongoing intra-regional diplomatic rifts. Such factors will further amplify persistent challenges in fragile economies, including by worsening refugee crises, conflicts and political instability; harming investor confidence; slowing private sector development; and clouding growth prospects. Furthermore, the unsatisfactory level of oil price recovery, coupled with a rapid tightening of global financial conditions, will complicate the growth equation to balance between fiscal consolidation, private sector development, diversification and structural transformation. Notwithstanding the daunting challenges ahead for policymakers in the Arab region, most countries are now implementing their own ambitious national development strategies. The regional outlook therefore hinges upon their capacity in minimizing those uncertainties while maximizing their transformative potential in view of the recent global recovery and of infrastructure development initiatives, such as the One Belt One Road Initiative and the Group of 20 Compact with Africa.